TESTIMONY OF

RONALD A. WILLIAMS
PRESIDENT
AETNA

BEFORE THE

SPECIAL COMMITTEE ON AGING OF THE
U.S. SENATE

WEDNESDAY, MAY 19, 2004

"HEALTH SAVINGS ACCOUNTS AND THE NEW MEDICARE LAW: THE FACE OF HEALTH CARE'S FUTURE"

Good afternoon, Mr. Chairman and members of the Committee. I am Ronald Williams, president of Aetna. I'm very pleased to be here today, and to describe to you Aetna's experience with consumer-directed plans, and in particular, HRAs and HSAs. As one of America's largest health insurers, Aetna is proud to serve 13.3 million health care consumers across America. Our customer base includes many of this country's largest employers, but we are equally privileged to serve mid-sized and small employers, individual insureds, more than one million retirees in employer-sponsored coverage and 100,000 retirees in Medicare Advantage plans.

A little more than two and a half years ago Aetna was the first national health insurer to offer a consumer-directed product which fully integrated health plans with Health Reimbursement Arrangements (HRAs). The Treasury's HRA regulations in the summer of 2002 allowed employers to restructure a portion of their benefit dollars into an account that their employees could direct against current health expenditures or accumulate against future health needs. The authorization of HSAs by Congress at the end of 2003 provided a critical extension of this concept, permitting employees to defer their own money into a similar, tax-advantaged health spending account that was also portable.

Within a year of its introduction, we expanded this family of plans, which we call Aetna HealthFund, to include two additional firsts, Aetna Dental Fund and Aetna Pharmacy Fund, products that introduced the HRA concept to specialty health coverage. On December 8, 2003, the day the Medicare Modernization Act was signed into law, we

were again the first to announce that we would offer a new class of Aetna HealthFund plans incorporating Health Savings Accounts (HSAs). Earlier this week, Aetna announced the availability of Retirement Reimbursement Accounts (RRAs)[1], which allow employers to make regular contributions to employee accounts which will then be available to fund qualified health care expenses in retirement. Today, we offer consumer-directed product designs tailored to virtually all customer segments that we serve.

The decision to be a leader in this emerging world of consumer-choice plans required us to make a number of significant changes in our traditional business models, challenging some basic elements of conventional thinking in our industry. It also forced us to make substantial investments in information systems, product filings, online self-service tools and information resources, as well as other aspects of our business at a time when we were in a fundamental turnaround of our company. But the decision to pursue this course was a simple one.

Aetna was hearing from our customers the same messages that you were hearing from many of your constituents: that the tension between rising health care costs and the competitive business environment was becoming increasingly challenging. As a company with more than 27,000 employees, and more than 11,000 retirees with health benefits, we understood the issues these customers faced. While the perception exists that employers are rapidly shifting health benefit costs to consumers, in fact, consumers were shielded from actual costs for the last several decades. The consumer's share of

health care expenditures has declined from 44 percent in 1965 to 14 percent in 2001, and is now starting to increase as more employers are struggling to manage costs.[2]

Simultaneously, a potentially more significant development began to take place in the health benefits marketplace. Consumers, who have already revolutionized virtually every other aspect of the American economy, are demanding greater control over their health care decisions and their health benefit dollars. We are hearing this directly from our members, who increasingly are asking for information about both the cost and quality of health care. We see increased use of our health information web tools such as our member self-service website, Aetna Navigator, and our online physician directory, DocFind, as well as our 24-hour nurse hotline. Participating physicians also tell us about the value of informed and educated consumers in achieving improved health status.

Importantly, consumers continue to recognize the value of their employers' health coverage in providing financial protection and, in many instances, case or disease management support when confronted with a serious illness or injury. Employers, too, continue to see their role as critical in enhancing their employees' lives, well-being and ultimately, their productivity.

From efforts to reconcile all of these forces a new consumer-choice paradigm began to emerge, combining increased flexibility and financial accountability for individuals as health consumers with more traditional elements of health insurance protection when they are dealing with serious health events. Importantly, we believe that well-designed

consumer-directed plans should encourage consumerism in health care for people at various life stages. However, when consumers need expensive care, the traditional coverage available in these plans should also protect them.

The market response to consumer-directed plans in general, and now HSAs, has been dramatic. Since our first product offering in September 2001, 190 employers now provide Aetna consumer-directed plans to more than 180,000 members. In our own employee population, enrollment grew in these products over a two-year period from less than one percent to more than 75 percent. Adoption of these plans, either as an option to more traditional coverage or, increasingly, as an employer's only plan, continues to accelerate. And although the HSA legislation was enacted after the traditional sales season last year, our early quote activity suggests that adoption of these plans will continue to increase, supplementing rather than supplanting HRA plans in the market. Since January 2004, we have held meetings on HSAs with more than 600 brokers and customers, including a presentation to our Client Advisory Group, which represents 86 of our largest customers. In the small employer market, we have 130 HSA customers, and four in the mid- to large-employer market.

While we expected early interest in HSAs from small employers, many of whom were familiar with medical savings accounts (MSAs) and have non-calendar benefit years, two of our earliest HSA sales have been employers with approximately 2,000 eligible employees each, plus dependents. One of these employers took the unusual step of re-opening their plan year just to introduce the HSA option. It is also important to highlight

that consumer-choice plans take many forms, and that by working closely with our customers, we have been able to tailor these products by customer need.

Aetna is committed to studying the impact of these types of plans on an ongoing basis. In February we announced the results of a study[3] of approximately 14,000 individuals enrolled in Aetna HealthFund plans during the first nine months of 2003, comparing their claims activity to their same experience in other Aetna plans during the corresponding period in 2002 as well as that of a matched cohort enrolled in other plans. While the data is preliminary, results showed that Aetna HealthFund members had a 1.5 percent increase in medical claims, compared to double-digit increases for the comparable population. Results from one employer in the study that offered an integrated pharmacy benefit illustrated a decrease in pharmacy claim costs and a significant increase in generic utilization compared to the overall population. Importantly, the study found that the age and family status of members enrolled in consumer-directed plans was not significantly different than the general population.

The study confirmed significant increases in usage of Aetna's online health information and tools: members in Aetna HealthFund are twice as likely to use online tools as members in other types of plans. Importantly, 9 out of 10 enrollees in the plan said they were satisfied or very satisfied with the coverage, with satisfaction increasing the longer they were enrolled. Slightly over half of the members studied carried some fund balance over into the next year.

In order to continue to evaluate the impact and benefits of these plans, we expect to continue to study quality and cost indicators in these populations as well as those enrolled in our HSA-based plans and to publish the results.

The positive public policy implications of these new plan designs extend substantially beyond the obvious tax advantages to employees. The empowerment of consumers to engage more actively in their health and benefits decision-making should encourage greater individual awareness of health and health risks, increase communication between patients and doctors about treatment options and costs, and ultimately provide significant market incentives for the development of new treatments, technologies and delivery modalities designed to meet the needs of consumers. We have found that our own employee population has a better understanding of health expenditures as a result of knowing actual costs of their premium as well as out-of-pocket costs for health services.

Ultimately, we believe this engagement will also have a positive effect on both health status and quality of care, as consumers take more time to educate themselves about their unique health risks, preventive opportunities, the potential benefits and risks of their treatments, and the growing body of available data regarding optimal treatment protocols and outcomes-based measures of care quality. The importance of this issue was highlighted recently in a recent Institute of Medicine report on health literacy in America, which indicated that 90 million Americans have difficulty understanding and using health information, and that patients with low health literacy often forgo preventive treatment.[4]

Aetna is committed to providing simple, easy-to-use tools, services and credible health information to help our members make more informed decisions.

Another important component of Aetna's plans is 100 percent first dollar coverage of preventive care, such as routine physicals, well-baby visits, annual gynecologic exams and immunizations. Health Risk Assessments allow Aetna members to complete a simple, on-line questionnaire to determine health risks or disease states, and when financial incentives are used, more members are encouraged to take advantage of this opportunity. Aetna can then provide these members with relevant "pushed" health information, including reminders for mammograms, eye exams for diabetics, and more.

Of particular significance to this Committee is another public policy aspect of these consumer-directed plans, and that is their potential value to retirees. The number of Americans with access to employer-provided defined-benefit retiree coverage has declined while their share of the cost has increased significantly, driven by competitive cost pressures on employers, accounting requirements, and even basic employment patterns as employees change jobs more frequently in the course of their careers. At the same time, estimated costs of health care for retirees continue to rise dramatically notwithstanding increased funding for Medicare, as people live longer, drug and technology costs continue to rise, and sub acute health care assistance becomes a more common need of the elderly. HRAs and HSAs provide two new powerful and flexible vehicles that permit employees to carry benefit dollars – and in the case of HSAs, salary dollars – from periods of maximum earnings to post-employment periods of maximum

need. Recent estimates suggest that Americans may require a minimum of $80,000, and in many cases substantially more, to meet post-retirement health care needs even with Medicare.[5] HSAs and HRAs provide substantial tax assistance to consumers to help prepare for a more secure retirement.

For employers, the HRA provides a significant opportunity to continue some level of financial support for retirees. Contributions to a retirement HRA can be made by an employer regardless of the employee's other coverage, and can be continued even if the retiree becomes eligible for Medicare. Employers also have the flexibility to define vesting and use rules for HRA dollars. Indeed this may be one of the most enduring legacies of the HRA regulation.

The HSA legislation also provides a significant retirement funding opportunity through the permitted "catch-up" contributions after age 55. Unlike HRA dollars, these additional contributions can be made by the employees directly. Beginning in 2009 the permitted additional contributions will be $1000 per year, meaning that an individual who works until Medicare eligibility can potentially save an additional $10,000. We would support additional flexibility to add to these funds in anticipation of retirement, including increasing the amount that can be contributed, and allowing contributions to begin at an earlier age. For those employees who receive some form of lump sum payment at the termination of their employment, either as severance or as a partial pay-out of their pension, it would be a significant opportunity for them to defer a portion of the pay-out into their HSA.

Many employees do not work to the age of Medicare eligibility, and we as a health benefits company are focused on providing affordable health solutions for this subset of retirees. HSA and HRA carry-forwards will make a substantial difference in the ability of these individuals to provide for their coverage needs in this pre-retirement period and to have greater control and peace of mind in planning for and selecting their retirement date. At the same time, there are an increasing number of workers who continue employment beyond age 65. These are often very valued workers who make a particularly meaningful contribution to their companies and to the American economy as a whole. Moreover, most of these workers continue coverage under their employer's active employee benefit plans and thus represent less or no burden on the Medicare system. We believe that if they otherwise meet the eligibility criteria to fund an HSA these individuals should be permitted to continue funding their accounts notwithstanding their eligibility for Medicare.

We would also welcome the opportunity to work with this Committee in developing consumer-directed options within the Medicare program itself. We could offer plan designs that are compatible with Medicare MSAs today, but we believe these plans would be more attractive if permitted CMS funding could be supplemented by the member or the health plan, and in higher amounts consistent with the HSA rules. This would allow improved continuity for members joining Medicare from private consumer-choice plans and allow them to retain their active consumer role in managing their health care and benefits.

Finally, as a leading provider of long-term care benefits, we applaud the inclusion of qualified long-term care premiums within the permitted expenditures of both HRAs and HSAs. This is important coverage for seniors, and an area where most Americans do not have sufficient coverage today. Because HSAs can be included in cafeteria plans, many employees will now have at least an indirect means of paying for this coverage through their flexible benefit plans. We have long advocated direct inclusion of qualified long term care as a permitted benefit in cafeteria plans, and we continue to believe that this would be very beneficial and effective public policy.

In conclusion, let me state that I appreciate the opportunity to meet with you this afternoon and to share our views and experiences related to health savings and health reimbursement accounts. I hope my brief remarks adequately convey the enthusiasm we feel about the potential for these important new funding arrangements to positively impact current health care costs and the long-term benefit needs of Americans. Our experience, and the experience of a growing number of employers, is that HSAs and HRAs represent an idea whose time has come in an increasingly consumer-centric era. We offer our support in working with you in your commendable efforts to encourage greater consumer choice and engagement in health care. We in the private sector will continue to build on the momentum you helped establish with new and innovative products and services.

[1] Aetna press release, May 17, 2004, www.Aetna.com
[2] CMS, Office of the Actuary, National Health Statistics Group
[3] Aetna HealthFund study, Aetna press release, February 16, 2004, www.Aetna.com
[4] Institute of Medicine, Health Literacy: A Prescription to End Confusion, April 8, 2004
[5] Employee Benefits Research Institute